



School of  
Management and Law

# New Zealand's Public Finance Act at 30: lessons, achievements and future directions

## Academic perspectives from Switzerland



**Building Competence. Crossing Borders.**

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# Public Financial Management

Budgeting

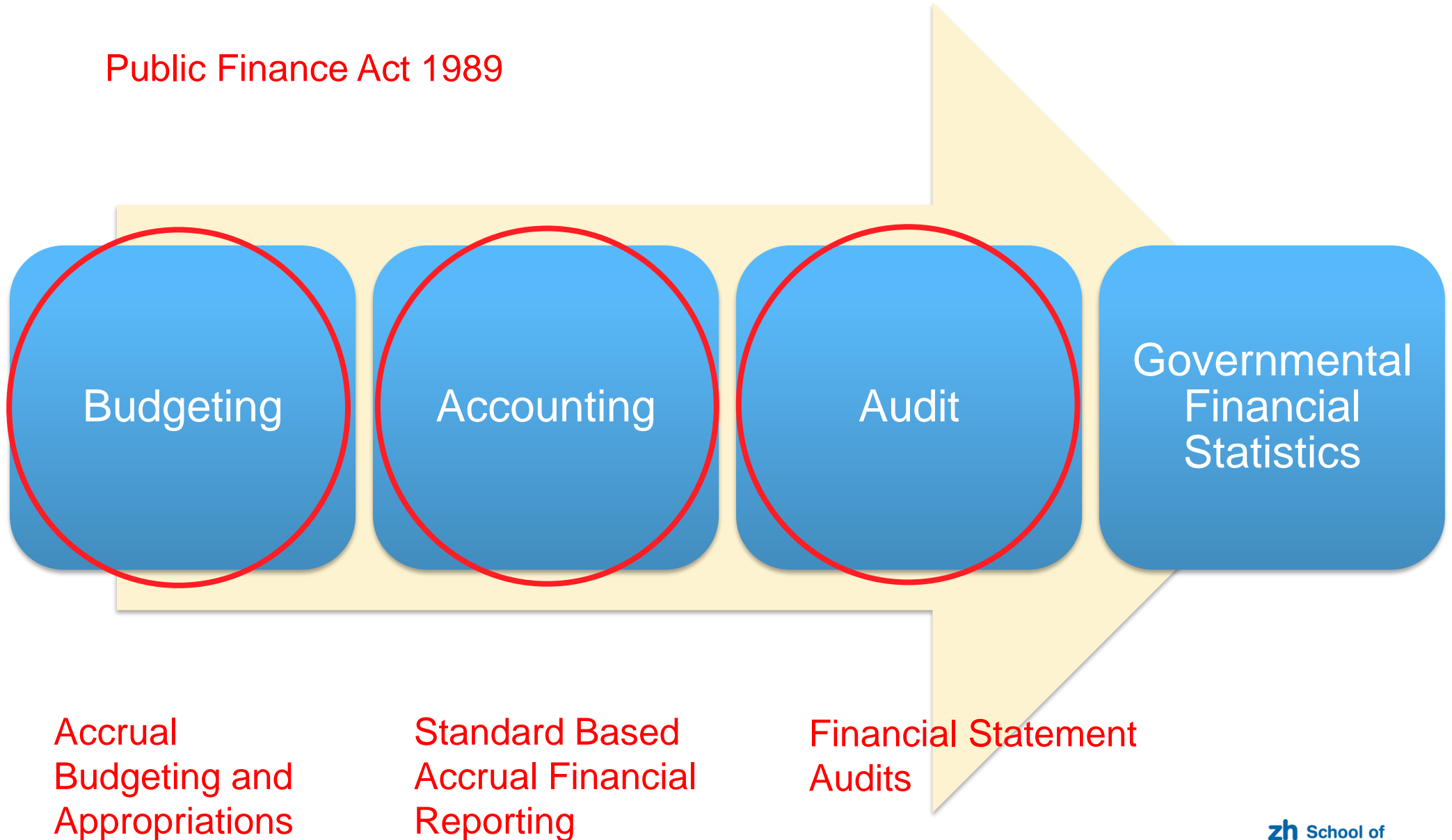
Accounting

Audit

Governmental  
Financial  
Statistics

# Public Financial Management

Public Finance Act 1989



# Government Accrual Budgeting and Accounting

## Accrual Accounting

### – Not a recent idea at all

- Italian cities from the 13th century
- Russia from the 18th century under Tsar Peter the Great
- Scandinavia/Switzerland/Chile/Spain 1970s – including accrual budgeting
- Globally from 1990s (part of «New Public Management»), in particular UK

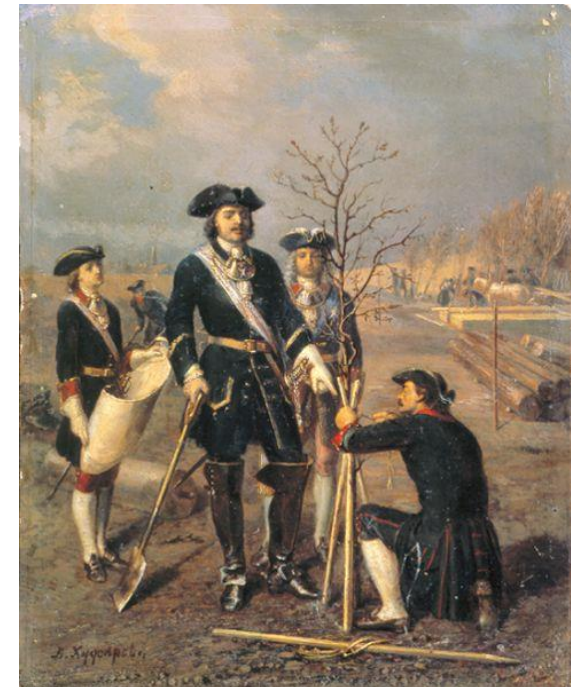
### – Characteristics:

#### -Economic view

Stocks and Flows: Assets, Liabilities,  
Revenues, Expenses

In the period of the economic event  
Completeness

- But as a novelty of the NZ-PFA: Fair Presentation  
(«true and fair view»)



# Government Accrual Budgeting and Accounting

## Accrual Accounting History is not always glamorous

Johann Heinrich Waser

Accountant of the State of Zurich/Switzerland

- Beheaded 27 May 1780, 1:00 pm, in Zurich
- His offence: The publication of the accrual basis Financial Statements of the State of Zurich
- Why so harsh? Officially because it included information about defense, unofficially to discourage others ...



# Government Accrual Budgeting and Accounting

... and many of the others have some shortcomings

## ■ Non-democratic/dictatorships at the time of accrual adoption

- Russia: Absolutist monarchy
- Chile: Accrual accounting was introduced by General Pinochet
- Spain: Accrual accounting was introduced by General Franco
- Switzerland: Earliest moves resulted in capital punishment

## ■ Reforms were somewhat limited

- Italy: City level
- Switzerland: Federal constitution allows only for recommendations and not for standards
- Sweden: Different standards at national and subnational level
- Finland: Little relationship with international standards

## ■ Reforms were sometimes reversed

- Denmark: Went back to cash accounting in 1955, before going forward again in 1970s

# Government Accrual Budgeting and Accounting

## The New Zealand Public Finance Act and subsequent reforms

### ■ Unique characteristics

- Democratic: Legislative act issued by an elected parliament
- Cooperative: Politics, profession and academia working together
- Comprehensive: Integrating all Public Financial Management functions
- Evolving: Development did not stop, but is still going on
- Based on international standards: for some time IFRS, now IPSAS

# Government Accrual Budgeting and Accounting

## The New Zealand Public Finance Act and subsequent reforms

### ■ Success factors

- Relatively simple government structure (two levels of government, no federalism)
- Very strong accounting profession
- Economic relevancy, at least at the time
- No countervailing incentives (e.g. no zero or negative interest rates)
- Integrated approach, avoiding offsetting incentives



# Government Accrual Budgeting and Accounting

Influential scholars from NZ



# Government Accrual Budgeting and Accounting

At the border of standard setting an academics

Bradbury  
Allen  
Dale  
Newby  
Pont  
Lee  
Teixeira  
Warren  
Mackintosh

# Government Accrual Budgeting and Accounting

International scholars influenced by NZ



# And where does academia stand?

## Admiration or refusal

- Many refer to the 1989 Public Finance Act as cornerstone in Public Financial Management
- Some, however, are very critical, often against accrual in general or against the way it was implemented
- How can that be? Is it ideological?

# The lack of a theoretical basis

## Two «eye-openers»

- Ileana Steccolini's APIRA key note
- Kerry Jacobs' meta analysis published in FAM November 2016

Admittedly lack of theoretical basis of public sector accounting is not a recent finding. Lapsley (1988 and 1999), Broadbent and Guthrie (1992), Guthrie (1998) or Pallot (1992)

Bottom line: We in PFM and in particular Public Sector Accounting lack an “indigenous” theoretical basis!

# The lack of a theoretical basis

- Jacobs, K. (2016): Mainly, the following theoretical basis were used (in this order)
  - Accountability Theory
  - New Public Management
  - Critical Theory (based on Habermas, Foucault and others)
  - New Institutional Theory
- Accountability Theory: Rooted in political science, but at least refers to a key objective of PFM/Public Sector Accounting
- New Public Management: Organizational theory, however, no global consensus on definition
- Critical and New Institutional Theories: Sociological theories, not develop to assess PFM/Public Sector Accounting

# The lack of a theoretical Basis

## What about private sector accounting research?

- Very different from Private Sector Accounting research, which is mainly using Principal Agent Theory and analyzing financial market data in function of information presented
  - Seminal papers: Ball/Brown (1968), Fama et al (1969)
  - Generally highly liquid stock market (e.g. NYSE)
- Does not fit well with governments/public sector
  - Investment decisions are not the only/not the most important purpose of financial statements in this sector (IPSASB, 2014)
  - Government do not issue stock, rather bonds, and bond markets are less volatile
  - Government bond markets are often not that liquid, because certain investors (e.g. pension funds, recently central banks) simply «hold to maturity»
- «Publicness» is missing (Steccolini, 2018)

# The lack of a theoretical basis: Way forward

## A possible starting point: Formulating the theoretical basis

- **The theoretical basis needs to be developed towards a theoretical model «how it works» (and not «how it fails»)**
  - Include accounting literature and standards (e.g. IPSASB Conceptual Framework)
  - Acknowledge and include cultural and institutional factors
  - Acknowledge that accounting information is not the only information affecting political decision making («no black or white»)
  - Consider interaction within PFM: Budget, Audit and GFS
- Such a model needs to be tested
  - Considering that innovation works different in public sector (Bugge/Bloch, 2016)

*Bergmann, A./Fuchs, S./Schuler, C. (2019 forthcoming) A Theoretical Basis for Public Sector Accrual Accounting Research: Current State and Perspectives. Public Money & Management.*



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